



The Insider

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Switalski Sponsors Pension Reform

Transfers Management of Detroit Public Pensions Funds

A couple of months ago, Detroit Mayor Dave Bing came to Lansing to ask for support on a bill affecting the City. He wanted us to raise the City's debt limit, doubling it from \$125 million to \$250 million. This would allow the City to sell bonds to pay off some accumulated debt. The City believed it could get a better interest rate on the bonds than it was currently paying for short term loans.

I appreciated the request, but it was troublesome. It is like someone saying, "Hey, I am broke. Lend me some money so I can pay off my debt." To me, you can't get out of debt by borrowing more money. You have to fix your budget so that you are raising more money, or making more cuts. When you borrow money you make your situation worse because now you have to pay fees and interest on the money you borrowed. You end up digging deeper.

I spent a fair amount of time researching the issue, and decided I was opposed. But I didn't have a solution for the city's problems other than to say make more cuts or raise some taxes. The mayor is new and I believe he is trying to be fiscally responsible. But to me this was the easy way out and might let people avoid hard choices.

Since I didn't have a better solution, I decided to be a quiet "no." I didn't get up and make a fiery speech about the proposal, I just voted no. If people asked, I told them why. But I didn't go around trying to get no votes and defeat the proposal. I told the City I would prefer tougher approaches. The legislation passed.

About a month later, the City came back with an additional proposal. For the past year, the *Detroit Free Press* has been running a series of stories on the shortcomings of the City of Detroit Pension Boards. They have detailed lavish travel, lack of accountability and transparency, and poor investment returns.

The City is ultimately responsible for funding the pension system, and if it is mismanaged the City must increase its subsidy to the pension system. The Mayor felt

Detroit Free Press Findings

- ☒ Pension Board Trustees travelled the world with few restrictions and lost millions in risky deals.
- ☒ Pension trustees, lawyers, and staff spent \$380,000 in a year's time circling the globe to attend conferences. One trustee spent \$105,000 on travel, including three trips to Singapore. Another spent more than \$20,000 to attend a conference in Dubai.
- ☒ The pension plans destroy most travel records after closing the books for the year, despite a state law that requires most public agencies to keep records for 7 years.
- ☒ An adviser to the Board recommended 3 investments that were rife with red flags. The deals collapsed, costing the pension plans \$90 million.

*By Jennifer Dixon
Detroit Free Press*

Click this link to the article:

<http://www.freep.com/article/20100319/NEWS01/3190358/1318/Battle-expected-over-pension-boards-plan>

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strongly that the current management should be changed to a non-profit trust, called the Michigan Employee Retirement System (MERS), that already manages the funds of some 700 other municipal retirements systems in Michigan. City experts estimated Detroit could save at least \$20 million immediately, and probably much more. For a city in deficit, that is big money.

It will be controversial. Those who run the current system will not give it up without a fight. But in my mind, it is the type of real reform that will make a lasting impact on Detroit's finances. It is the type of change I can believe in.

I am proud to be the sponsor of this legislation. I am the Democratic Vice-Chair of Appropriation, and the Republican Chair, Ron Jelinek, is the sponsor of the other bill required to complete this reform. So this effort is bipartisan.

George Cushingberry, a Democrat from Detroit, is the Chair of Appropriations in the House, and the Republican Floor Leader is Dave Hildenbrand. They sponsored the same legislation in the House. So the bills are bi-cameral as well.

I look forward to working with my colleagues across the aisle, and across the chambers, to enact these important reforms.

New Year's Resolutions for 2010

- ☑ Finish the Budgets by July 4th .
- ☑ Balance the Budget with a real solution—not smoke and mirror accounting tricks, fake revenues, one time solutions, or pretend cuts.
- ☑ Make fundamental reforms that result in long term stability.
- ☑ Fix the transportation tax to share the burden with hybrids and electrics that don't pay the gas tax. Don't leave Federal money on the table.
- ☑ Fix the sales tax so that it grows in tandem with the economy. That means extending the tax to services while dropping the overall rate.

Time to Reform Pension Management

“The shortcomings of the current fund managers have been well-documented. Higher returns on investments with MERS and lower administrative costs would improve the viability of Detroit's Pension Funds.”

—Senator Mickey Switalski



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I want to thank you for your fiscally responsible attitude. But I would strongly urge you to find a way to fully fund PURE MICHIGAN, since there is data to support excellent return on investment, even if adding a tax onto car rental is initiated.

D.R. Sterling Hts

Please act immediately to provide full funding for a National and Regional PURE MICHIGAN campaign. Full funding for Pure Michigan is the best means to jumpstart Michigan's depressed economy.

T.N. Utica

We spent \$5.7 million on PURE MICHIGAN and tourism in 2005, \$13 million in 2006 and 07, \$17.5 million in 2008, and \$30 million in 2009, using funds pulled from various piggybanks that are now empty. Despite the advertising, tourism dropped significantly last year, suggesting the underlying economy dictates much of tourism spending. I would like to fund the program, beyond the current \$5 million available, but I wouldn't cut schools to get the money. I would agree to raise the fee on rental cars \$2.50 per day to generate \$13 million. Without either a fee or a cut to some less worthy program, I can't support the request.